

Federal Perkins Loan Program (CFDA No. 84.038)

I. Legislation

Higher Education Act (HEA) of 1965, Title IV, Part E, as amended (20 U.S.C. 1087aa-1087hh) (expires September 30, 1997).

II. Funding History

<u>Fiscal Year</u>	<u>Appropriation</u>	<u>Fiscal Year</u>	<u>Appropriation</u>
1959	\$39,883,000	1986	\$181,830,000
1960	40,393,000	1987	188,000,000
1965	145,000,000	1988	185,736,000
1970	188,785,000	1989	183,507,000
1975	321,000,000	1990	135,129,000
1981	186,000,000	1991	156,142,000
1982	178,560,000	1993	168,600,000
1983	178,560,000	1994	173,000,000
1984	161,060,000	1995	158,000,000
1985	161,060,000	1996	93,300,000

III. Analysis of Program Performance

A. Goals and Objectives

To help financially needy undergraduate and graduate students meet the costs of education by providing low-interest, long-term loans through postsecondary education institutions.

B. Strategies to Achieve the Goals

Services Supported

The Department of Education allocates Federal Perkins Loan funds to a postsecondary education institution based on the amount the institution expended in the 1985-86 award year, less a default penalty, plus an increase based on the school's share (according to a federal formula) of the total appropriation for the current year. Institutions then distribute these funds to eligible students according to their own aid-packaging policy. Federal Perkins Loans are a combination of federal and institutional capital contributions. The institutional capital contribution must equal at least three-tenths of the federal capital contribution.

To receive a Federal Perkins Loan, students must meet certain categorical eligibility criteria and demonstrate financial need (the cost of their attendance must exceed their expected family contribution, Pell Grant, and other financial aid received). Institutions determine the distribution of loans among eligible applicants and must give priority to those with exceptional financial need.

Chapter 504-2

Beginning with the 1993-94 award year, the maximum annual loan limit is \$3,000 for an undergraduate and \$5,000 for a graduate or professional student, with aggregate limits of \$15,000 and \$30,000 respectively. These represent an increase over the prior aggregate limits of \$9,000 for undergraduate students and \$18,000 for undergraduate and graduate students combined. For borrowers attending an institution participating in the expanded lending option (institutions that have default rates less than 7.5 percent and match the federal capital contribution dollar for dollar), the maximum annual loan limit is \$4,000 for an undergraduate and \$6,000 for a graduate or professional student, with aggregate limits of \$20,000 and \$40,000, respectively.

Borrowers do not pay any interest while in school and during the grace period, but pay a 5 percent annual rate of interest while the loan is in repayment.

Loans can be canceled (forgiven) for statutory reasons, such as loans to borrowers serving in the military or teaching low-income or handicapped children.

Strategic Initiatives

Analyses from the National Postsecondary Student Aid Study, by the Department's Planning and Evaluation Service, found that:

- 3.2 percent of all postsecondary students received Federal Perkins Loans and 6.1 percent of full-time students did so. Participation is highest, almost 21 percent, among dependent students, whose families have incomes between \$10,000 and \$30,000 and attend private institutions. Almost 10 percent of all students attending private institutions received Federal Perkins Loans. Less than 1 percent of students enrolled in two-year public institutions received Federal Perkins Loans.
- A larger proportion of full-time graduate students (8.0 percent) received Federal Perkins loans than the proportion of full-time undergraduate students (5.9 percent).
- Less than 1 percent of part-time students received Federal Perkins Loans.

Table 1

**Percentage of College Students Participating
in the Perkins Loan Program
1992-1993 Award Year**

	All	Type of Institution				Status	
		2-Year public	4-Year public	Private	Prop.	Full-Time	Part-Time
All	3.2%	0.6%	4.3%	7.4%	2.7%	6.1%	0.9%
Graduate	3.1	0.9	3.9	3.2	2.6	8.0	0.6
Undergraduate	3.2	0.6	4.4	8.9	2.7	5.9	0.9
Dependent ¹	4.5	0.3	4.3	12.7	3.0	6.3	1.1
Income	7.9	0.5	9.8	18.3	4.3	11.2	1.0
Under \$10,000							
\$10,000-29,000	8.1	0.7	10.4	20.8	4.2	11.5	2.8
\$30,000 & Over	3.2	0.2	2.4	10.1	1.8	4.5	0.6
Independent	2.3	0.7	5.0	4.4	2.6	6.2	0.8
Income	5.2	1.8	9.5	9.1	3.2	8.1	2.5
Under \$10,000							
\$10,000 & Over	1.4	0.5	2.8	2.8	2.2	4.7	0.5

Note. The percentage of participation is for each grouping of students described by the intersecting row and column descriptors (e.g., 3.9 percent of graduate students attending a four-year public institutions). Source IV.2.

C. Program Performance—Indicators of Impact and Effectiveness

Population Targeting and Services

Federal Perkins Loans are available to undergraduate and graduate students who attend participating postsecondary institutions and meet certain other criteria (e.g., have a high school diploma or its equivalent or have passed an examination approved by the Secretary of Education). Applicants must demonstrate financial need based on the cost of education and the ability of the student and or the student's family to pay this cost. Need is calculated in accordance with a congressionally specified formula. Final eligibility and award amounts are determined by the postsecondary institution based on the amount of funds available at the institution and the institution's aid-packaging policy.

¹Undergraduates only.

The Federal Perkins Loan Program, with the Federal Supplemental Educational Opportunity Grant Program and the Federal Work-Study Program, are collectively referred to as "Campus-Based Programs" because the institution determines which eligible students receive awards and how much they receive.

Participation. In the 1995-96 award year, (the most recent year for which student information is available), 687,697 students received Federal Perkins Loans; the average award amounted to \$1,497. The total amount lent was \$1,029,309,941--an amount more than six times greater than the appropriation. The Federal Perkins Loan funds go into a revolving fund. Loan repayments (and interest) are used to make new loans. In 1995-96, the amount of Federal Perkins Loans received by students increased over the previous year when 663,347 students received Federal Perkins Loans averaging \$1,464 per loan.

Distribution by sector. Institutional participation in the program has decreased slightly. In 1995-96, 2,381 institutions received program funds, whereas 2,565 participated in 1994-95. Of the 2,381 institutions receiving funds, 783 were public, 1,085 were private non-profit and 513 were proprietary (private for-profit) institutions.

Table 2 displays the distribution of Federal Perkins Loan funding, by type of institution, since 1983-84, when these data were first collected.

- The distribution of program funds across different sectors of postsecondary education has remained fairly stable over time.
- Public and private nonprofit and proprietary schools received 43.7, 49.8, and 6.4 percent of program funds, respectively, for 1995-96.

Table 2

**Distribution of Federal Perkins Loan
Funds by Control of Institution for
Award Years 1983-84 to 1995-96
(Percent)**

Award Year	Public	Private	Proprietary
1995-96	43.8%	49.8%	6.4%
1994-95	48.7	47.9	3.4
1993-94	48.4	47.4	4.1
1992-93	49.7	44.7	5.6
1991-92	50.1	44.1	5.8
1990-91	50.7	43.5	5.8
1989-90	47.8	46.6	5.6
1988-89	49.4	45.3	5.3
1987-88	48.9	45.0	6.1
1986-87	49.2	44.1	6.7
1985-86	48.9	44.7	6.4
1984-85	49.9	43.8	6.2
1983-84	49.7	43.5	6.8

Source: IV.2.

Distribution by dependency status and educational level. Table 3 shows the distribution of Federal Perkins Loans by students' dependency status and level of education. In 1995-96, dependent and independent undergraduate students and graduate students made up 62.2, 25.6, and 12.3 percent, respectively, of all Federal Perkins Loans recipients during that year.

Table 3

**Distribution of Federal Perkins Loans to Students
by Dependency Status and Level of Education for
Award Years 1983-84 to 1994-95
(Percent)**

Award Year	Undergraduates		Graduate Students
	Dependent	Independent	
1995-96	62.2%	25.6%	12.3%
1994-95	60.7	26.1	13.2
1993-94	57.7	29.9	12.4
1992-93	57.5	29.4	13.1
1991-92	57.5	29.7	12.9
1990-91	57.8	29.4	12.9
1989-90	53.0	27.4	19.6
1988-89	52.8	27.0	20.2
1987-88	56.3	25.0	18.7
1986-87	56.2	26.3	17.4
1985-86	56.6	25.4	18.0
1984-85	57.1	25.0	17.8
1983-84	58.3	24.3	17.4

Note: Numbers may not add to 100.0 percent because of rounding. Source IV.2.

Distribution by Income. Tables 4 and 5 show the percentage distribution of Federal Perkins Loans in 1995-96 by the dependency status of the student and level of family income:

- Over 50 percent of dependent Federal Perkins Loan recipients have family incomes of at least \$30,000.
- Independent undergraduates and graduate students account for 25.6 percent and 12.3 percent of all Federal Perkins Loan recipients, respectively.
- Average awards do not vary much by income level. Graduate students, however, have a much higher average loan amount than undergraduate students, probably because of their higher costs and their independent status.

Table 4
Distribution of Federal Perkins Loans by Dependency Status for All Students
1994-95 Award Year
(Percent)

	Dependent	Independent	Graduate Students	All Students
Distribution of Recipients	62.2%	25.6%	12.3%	100.0%
Distribution of Aid	58.4%	23.3%	18.3%	100.0%
Average Award	\$1,406	\$1,362	\$2,237	\$1,497

Source IV.2

Table 5
Distribution of Federal Perkins Loans for Dependent Students
by Family Income 1994-95 Award Year
(Percent)

	Under \$6,000	\$6,000-\$11,999	\$12,000-\$23,999	\$24,000-\$29,999	\$30,000-\$41,999	\$42,000-\$59,999	\$60,000+	Total
Distribution of Recipients	5.5%	6.1%	20.0%	11.9%	21.0%	21.6%	13.3%	100.0%
Distribution of Aid	5.6%	6.0%	20.3%	12.0%	21.3%	21.4%	13.3%	100.0%
Average Award	\$1,421	\$1,383	\$1,427	\$1,424	\$1,425	\$1,390	\$1,356	\$1,406

Source IV.2

Outcomes

As of June 30, 1996, Federal Perkins Loan funds at postsecondary institutions had a current value of \$6.7 billion, and cumulative defaults held by institutions totaled \$818 million. This figure excludes information from schools that no longer participate in the program.

The Federal Perkins Loan program is set up as a revolving fund: borrowers' payments replenish the schools' loan funds, making capital available for loans to other students. The General Accounting Office found that 87 percent of participating institutions had operating expenses and losses, including loan cancellations (forgiveness), that exceeded their Perkins funds' income. GAO found that, through June 1989, cumulative operating costs (including cancellations and defaults) exceeded income by about \$1.05 billion. Federal and school capital contributions have been used, in part, to make up for operating losses as well as to increase funds available for loans.

The institutional default rate is calculated by dividing the principal amount outstanding on loans in default by the principal amount of all loans that have entered repayment status. This rate excludes those loans which were assigned to the Department of Education. Loans that have not yet entered into repayment status are those in student status and first grace period. Default rate by institutional type is shown in Table 6.

Beginning in award year 1992-93, the Federal Perkins Loan default rate is calculated for cohorts instead of cumulatively.

Table 6
Federal Perkins Loan Program
Status of Cohort Default as of June 30, 1996

	Number of Borrowers Who Entered Repayment Status in 1993-94	Number of Borrowers Who Entered Repayment Status in 1993-94 and in Default on June 30, 1995	Cohort Default Rate	Number of Borrowers in Default More Than 240 Days	Principal Outstanding on Loans in Default More Than 240 Days
Public 2-Year	21,938	4,582	20.89	48,047	\$ 41,552,855
Public 4-Year	187,501	19,107	10.19	249,535	350,421,902
Private 2-Year	5,528	831	15.03	10,412	12,498,611
Private 2-Year	153,351	16,972	11.07	205,689	349,477,305
Proprietary	28,207	8,363	29.65	56,771	64,477,334
Total	396,525	49,855	12.57	570,454	\$818,571,007

Campus-Based Programs Performance Measures			
Goal: To successfully manage the Campus-Based Programs in an efficient and cost-effective manner to help students and their parents meet postsecondary education costs.			
Objective	Indicators	Source and Next Update	Strategies
Students			
1. Maintain a high level of student satisfaction.	1.1 Overall satisfaction with campus-based programs. <i>Benchmark to be determined via initial survey.</i>	1.1 Office of Postsecondary Education (OPE)/ Office of the Under Secretary's Planning and Evaluation Service (PES) student aid applicants survey, annual, 1997	<ul style="list-style-type: none"> Students will be more satisfied due to the increased funding for Federal Work-Study and our efforts to align jobs better with academic and career goals. In addition we are strongly encouraging schools to make jobs available tutoring underprivileged children in their communities. We believe students will find this tutoring to be very rewarding.
Institutions - all Campus-Based programs			
2. Improve institutional utilization of campus-based program funds.	2.1 Percent of funds available for reallocation. Amount of funds available for reallocation will be maintained at current low level. <i>For 1995-96, reallocations (\$12.5 million) represented about 1% of the funds allocated (\$1.3 billion).</i>	2.1 Annual OPE program data, 1997	<ul style="list-style-type: none"> A workgroup has been formed which will be instructing schools on the appropriate expenditure of funding.
3. Maintain a high level of institutional satisfaction.	3.1 Overall institutional satisfaction with the campus-based programs. Exceed the overall satisfaction rate of 75%. <i>Baseline to be determined via initial survey.</i>	3.1 Annual performance report (benchmark data to be established via survey, OPE customer complaints), 1997	<ul style="list-style-type: none"> Elimination of paper Financial Aid Transcripts will make schools happier with our services. Also in FY 1998, we plan to make the FISAP available to schools in a windows environment.

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Federal Work-Study Program				
4. Improve the level of participation in community service under the FWS Program.	4.1	Percent of program funds spent on community service. Meet or exceed the current percent of expenditures used for community service, especially America Reads. <i>Preliminary level = 7.93%</i>	4.1 OPE program data, annual, 1997	<ul style="list-style-type: none">As an incentive, schools using reading tutors are waived from having to provide their “match” to federal funds.Assure timely disbursement of funds in support of America Reads.
5. Improve placement of FWS students in jobs related to academic/ career goals.	5.1	Student placement rates. Rates at which students are placed in related jobs will increase. <i>Baseline to be developed.</i>	5.1 NCES data, survey of institutions, annual, 1997	<ul style="list-style-type: none">Our Job Locator and Development Program uses Federal Work/Study money to create jobs that are relevant for students.
Federal Perkins Loan Program				
6. Improve the management of the Federal Perkins Loan Program portfolio.	6.1	Cohort default rate. Rate will decrease from current level. <i>For borrowers entering repayment during the 1993-94 award year and who were more than 240 days in default on June 30, 1995, the national cohort default rate is 10.75%. For the previous year, the rate was 11.42%.</i>	6.1 OPE program data; annual, 1997	<ul style="list-style-type: none">Our Default Reduction Assistance Program serves to help schools in preventing defaults.
	6.2	Collection rate. The program collection rate will continually increase over baseline. <i>Baseline to be developed.</i>	6.2 OPE program data, annual, 1997	
Taxpayers				

Campus-Based Programs Performance Measures			
Goal: To successfully manage the Campus-Based Programs in an efficient and cost-effective manner to help students and their parents meet postsecondary education costs.			
Objective	Indicators	Source and Next Update	Strategies
7. Provide a program that is cost-effective for the taxpayer.	7.1 Contractor performance. All major deliverables will meet established quality standards and be produced on time and within cost or budget. <i>Prototype contractor report is under development.</i>	7.1 Evaluation by ED's Contracts and Purchasing Operations and OPE's contract monitor, monthly, 1997	<ul style="list-style-type: none"> All Task Orders under the new Campus-Based Systems and Development Contract will be performance-based. The contract also contains an automated statistically driven quality control/quality assurance (QC/QA) subsystem. Also under EDCAPS, we are re-engineering the Campus-based accounting system which will promote the continued ability to reconcile Campus-based expenditures.
8. Provide strong fiscal management of the program.	8.1 Positive audit results, i.e., no material weaknesses for the Campus-Based Programs. No material internal control weaknesses will be identified in the Campus-Based Programs' portion of ED's Department-wide financial statement audit. <i>No material weaknesses were identified in the FY 1995 Department-wide financial statement audit.</i>	8.1 Financial program audits, annual, 1997	<ul style="list-style-type: none"> As indicated above, the improved Campus-Based accounting system will result in improved fiscal management.

Please see also Office-Wide Performance Indicators for Office of Postsecondary Education displayed in the Overview (OPS) to the postsecondary education programs.

IV. Planned Studies

None.

V. Sources of Information

1. *National Postsecondary Student Aid Study*. (Washington, DC: U.S. Department of Education, National Center for Education Statistics, 1992).
2. *Fiscal Operations Report 1994-95*, unpublished tables from Forecasting and Policy Unit, Policy, Budget and Analysis Section, Office of Policy Planning and Innovation, Office of Student Financial Assistance, U.S. Department of Education.
3. *Perkins Student Loans: Options That Could Make the Program More Financially Independent* (Washington, DC: U.S. General Accounting Office, December 1991).

VI. Contacts for Further Information

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